

REPORT OF  
FINANCIAL EXAMINATION

**NATIONAL FIRE AND INDEMNITY EXCHANGE**

As Of  
December 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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April 17, 2006  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair of the NAIC Financial Condition (E) Committee

Honorable Ann Womer Benjamin, Director  
Ohio Department of Insurance  
Secretary of the Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, MO 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**National Fire and Indemnity Exchange**

also referred to as “the Exchange.” The examination was conducted at the Exchange’s home office at 6030 Bancroft Street, Saint Louis, Missouri 63109, telephone number (314) 832-1118. This examination began on January 23, 2006 and concluded April 17, 2006.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope comprehensive financial examination of National Fire and Indemnity Exchange was performed as of December 31, 2001. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2002, through December 31, 2004. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. No other zones participated in this examination.

This examination also included material transactions or events occurring after December 31, 2004.

## GENERAL COMMENTS OR RECOMMENDATIONS

The comments and recommendations from the prior Report of Financial Examination, as of December 31, 2001, are listed below. The Company's response and the item's current status are also indicated.

### *Comment: Custodial Agreements*

"The NAIC has adopted new minimum controls, which they suggest be included in safekeeping / custodial agreements. It is recommended that the Exchange update its custodial agreement to include the minimum safeguards and controls stated in the NAIC Financial Condition Examiners Handbook."

### *Company response:*

"We have recently asked Merrill Lynch to amend our agreement to incorporate the new NAIC minimum controls. We have not yet received Merrill Lynch's response, but we expect to be able to secure a custodial agreement which includes the new NAIC minimum controls."

### *Current findings:*

The Exchange has been unable to obtain an amended agreement with Merrill Lynch that incorporates the NAIC minimum controls. However, in July 2003, Merrill Lynch provided the Missouri Department of Insurance with a letter stating that if the custodial agreement is terminated or if 100% of the Exchange's assets are withdrawn, Merrill Lynch shall use reasonable efforts to notify the Department within three days of the termination or withdrawal.

### *Comment: Corporate Records-Subscribers' Agreement*

"It is recommended that the Exchange amend its Subscribers' Agreement to incorporate the resolution passed by the Advisory Committee in 1992 relating to advertising expenses."

### *Company response:*

"We will draft wording for a Subscribers' Agreement amendment relating to advertising expense. We will present that amendment wording to the Advisory Committee for their approval at their annual meeting in August, 2003. Subject to the Advisory Committee's approval, we will submit the amended wording to the Missouri Department of Insurance (MDI) within 30 days of the Advisory Committee's approval and to the insurance departments of all other states in which the Exchange operates within 30 days of MDI's approval. We will implement the amended subscribers' agreement within 90 days of MDI's approval."

### *Current findings:*

On August 10, 2003, the Advisory Committee passed a resolution affirming the appropriateness of reimbursing the attorney-in-fact for 100% of all advertising expense subject to a maximum of 2.5% of the Exchange's written premium.

*Comment:* Corporate Records-Advisory Committee Meeting Minutes

“It was noted that the Advisory Committee meeting minutes do not always document the election of officers and other significant transactions. It is recommended that the Exchange document all significant corporate transactions in the Advisory Committee meeting minutes.”

*Company response:*

“We are determined to have all future Advisory Committee minutes fully document the election of officers and all other significant Advisory Committee actions. We will take time in each meeting to make sure that all Advisory Committee decisions including elections are clear and that the person recording the minutes documents those decisions clearly.”

*Current findings:*

The minutes of the Advisory Committee meetings were reviewed for the period under examination. The minutes reflect the election of officers.

## **HISTORY**

### **General**

National Fire and Indemnity Exchange was formed and commenced business in 1915 as a reciprocal inter-insurance exchange, providing insurance coverage related to cleaning and dyeing operations. Originally titled "The National Association of Dyers and Cleaners Inter-Insurance Exchange," the Exchange changed its name to "National Fire Insurance Exchange" in 1924. As a result of a merger with another exchange, on December 31, 1968, the Exchange adopted its present name.

As set forth in its Certificate of Authority, the Exchange is licensed by the Missouri Department of Insurance to write property and liability insurance under RSMo Section 379 (Insurance other than life).

### **Capital Stock**

The Exchange does not issue capital stock. The Exchange is not incorporated nor does it have stockholders.

### **Dividends**

The Exchange's subscriber dividend policy provides incentives for and rewards policyholder loyalty. Dividend participation factors are based upon subscriber persistency.

In April 1995, the Advisory Committee revised the dividend policy, authorizing up to fifty percent (50%) of pre-tax profit to be distributed to policyholders. In July 2001, the Advisory Committee again revised the dividend policy, allowing up to one hundred percent (100%) of pre-tax profit to be declared as dividends or subscriber savings account contributions.

Following are the subscriber dividends incurred during the examination period:

<u>2002</u>	<u>2003</u>	<u>2004</u>
\$694,500	\$792,154	\$373,083

## **Management**

Through the Subscribers' Agreement, Exchange members appoint an attorney-in-fact to manage the daily operations of the Exchange. From its inception the Exchange has had one attorney-in-fact, John L. Corley, Inc., (f/k/a John L. Corley). The Exchange has no employees; services are provided by employees of John L. Corley, Inc.

An Advisory Committee chosen by the subscribers advises the attorney-in-fact. Advisory Committee members are elected at the annual Subscribers Meeting. The Advisory Committee consists of seven (7) subscribers and a representative of the attorney-in-fact (who only votes in the event of a tie). Members are elected for one-year terms. The members elected and serving on the Advisory Committee at December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Louis Bader Woodstown, NJ	Owner Park N' Wash
Richard Miller Fort Lauderdale, FL	President Barton & Miller, Inc.
Leo Soukup, Jr. Doniphan, NE	President C.C. Hoff, Inc.
Jeanne M. Wolf St. Louis, MO	Owner, Morgenthaler's Cleaners, Inc. Chairman of the Advisory Committee
Joseph Yoon Hyattsville, MO	President House of Kleen
Robert G. Aikin Ballwin, MO	Attorney-In-Fact Representative President of John L. Corley, Inc.
Russell J. Petrozzi Niagara Falls, NY	Owner Capitol Cleaners & Feldman Furs
Jack Barron El Paso, TX	Owner Coronado Cleaners & Laundry, Inc.

The Advisory Committee is the only active committee within the Exchange.

The officers of the Exchange serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Robert G. Aikin	President
Ann M. Hawkins	Vice President
Greg E. Mouldon	Treasurer
Carol A. Walter	Secretary

### **Conflict of Interest**

The Exchange requires Advisory Committee members and officers to complete conflict of interest statements annually. Signed conflict of interest statements were reviewed for each year under examination. None of the statements indicated any material conflicts.

### **Corporate Records**

The Subscribers' Agreement was reviewed. On August 10, 2003, the Subscribers' Agreement was amended, clarifying the Exchange's treatment of advertising expense and providing a mechanism for amending the Subscribers' Agreement. The Governance Rules, which were adopted August 10, 2003 in response to a prior examination recommendation, were also reviewed. The Governance Rules provide guidelines for regulating the internal affairs of the Exchange.

Initially there was a conflict between the Subscribers' Agreement and the Governance Rules concerning termination of the attorney-in-fact. The Subscribers' Agreement required a unanimous vote by the Advisory Committee to appoint a successor attorney-in-fact. The Governance Rules required an affirmative vote of 5 of 7 members of the Advisory Committee to appoint a successor attorney-in-fact. The Subscribers' Agreement was amended in 2005 and now requires an affirmative vote of 5 of 7 members of the Advisory Committee to appoint a successor attorney-in-fact.

The minutes of the Advisory Committee meetings were reviewed for the period under examination. The minutes appear to properly reflect and approve corporate transactions and events for the period under examination.

Affidavits attesting to the receipt of the examination report were completed by all Advisory Committee members as required by RSMo 374.205.3(4) (Examination, director may conduct when, required when).

### **Acquisitions, Mergers and Major Corporate Events**

No major events took place during the examination period.

## AFFILIATED COMPANIES

### Holding Company, Subsidiaries and Affiliates

The Missouri Department Insurance has determined that the Exchange is not a member of an Insurance Company Holding System as defined by Section 382.010 RSMo (Definitions).

John L. Corley, Inc. ("Corley"), attorney-in-fact, manages the affairs of the Exchange. The Exchange's subscribers have appointed Corley as the attorney-in-fact in their Subscribers' Agreement.

### Attorney-In-Fact

Corley is a privately-held corporation with 2,000 shares of common stock outstanding. Robert G. Aikin, President of National Fire & Indemnity Exchange, owns 1,200 of the outstanding shares; Pam Koprowski, an individual, owns the remaining 800 shares.

In addition to being the Exchange's attorney-in-fact, Corley is also an insurance agency. As an insurance agency, Corley places coverage, including workers' compensation, boiler, commercial auto and umbrella, with other insurance carriers. These policies supplement the commercial multi-peril package policy sold by the Exchange. This supplemental coverage is combined in a portfolio of policies offered by NIE Insurance. NIE Insurance is a fictitious name owned by Corley and registered with the Missouri Secretary of State.

As authorized in the Subscribers' Agreement, Corley receives twenty-five percent (25%) of gross written premium, less amounts written off, as compensation for its services. Corley pays all expenses related to the exchange of insurance contracts. Corley is also responsible for purchasing the necessary books, supplies, records and equipment, which remain the property of the attorney-in-fact.

The Exchange pays the following expenses: license fees; taxes; audit fees; legal fees; Advisory Committee expenses; claim adjustment expenses; expenses or fees mandated by individual states; National Association of Insurance Commissioners fees; Federal Insurance Administration fees; rating bureaus for services and the Exchange's statistical response; underwriting reports; surveys; and advertising expenses.

The Exchange has authorized Corley to pay claims adjusting expenses and advertising expenses on its behalf. The Exchange reimburses Corley up to 2.5% of written premium for claims adjusting expenses and up to 2.5% of written premium for advertising expenses.

The Exchange incurred attorney-in-fact fees for the years under examination as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Management Fees	\$ 1,591,508	\$ 1,742,390	\$ 1,840,147
Advertising Exenses	126,918	124,828	131,632
Loss Adjusment Expenses	<u>103,214</u>	<u>116,114</u>	<u>132,407</u>
Totals	\$ 1,821,640	\$ 1,983,332	\$ 2,104,186



## **FIDELITY BOND AND OTHER INSURANCE**

The Exchange is a named insured on a directors and officers liability policy that provides coverage up to \$1,000,000 per claim or in the aggregate, with a deductible of \$25,000 per claim.

The attorney-in-fact, Corley, is a named insured on a fidelity bond providing a liability limit of \$200,000. The minimum amount of fidelity coverage recommended by the National Association of Insurance Commissioners (NAIC) for an insurer equivalent in size to the Exchange is \$225,000. Corley needs to increase its fidelity bond coverage to meet the NAIC recommended minimum of \$225,000.

Corley also maintains the following coverage: employee dishonesty; workers' compensation; employer's liability; commercial auto; commercial property; agents' errors and omissions; data processing; and, commercial umbrella liability. Corley's insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Exchange has no employees. The attorney-in-fact, Corley, provides personnel services as authorized in the Subscribers' Agreement. Corley employees receive a variety of benefits including paid time off, medical insurance, dental insurance, group life insurance, accidental death or dismemberment insurance, a profit sharing plan and tuition reimbursement.

## **STATUTORY DEPOSITS**

### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were deemed sufficient to meet the \$1,200,000 deposit requirement for the State of Missouri per Section 379.098 RSMo (Securities deposit).

<u>Type of Security</u>	<u>Par Value</u>	Statement	
		<u>Value</u>	<u>Market Value</u>
U.S. Treasury Note	\$ 240,000	\$ 239,343	\$ 238,538
U.S. Treasury Note	130,000	129,849	128,772
U.S. Treasury Note	50,000	50,416	51,390
U.S. Treasury Note	251,000	253,366	248,947
St. Louis County Bond	400,000	407,700	422,920
Missouri State Envir. Bond	240,000	249,553	272,758
Totals	<u>\$ 1,311,000</u>	<u>\$ 1,330,227</u>	<u>\$ 1,363,325</u>

## Deposits with Other States

The Company has funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Arkansas	Certificate of Deposit	\$ 70,000	\$ 70,000	\$ 70,000
Florida	Cash	200,000	200,000	200,000
Louisiana	Certificate of Deposit	20,000	20,000	20,000
Georgia	Evergreen Inst. Money Market	40,507	40,507	40,507
North Carolina	Fayetteville, NC Bond	125,000	128,210	128,210
South Carolina	U.S. Treasury Note	150,000	159,903	160,595
Massachusetts	Mass. St., Bond	550,000	525,996	592,202
Ohio	U.S. Treasury Note	255,000	254,653	255,408
Virginia	Virginia State Bond	200,000	205,994	217,660
		<u>\$ 1,610,507</u>	<u>\$ 1,605,263</u>	<u>\$ 1,684,582</u>

## INSURANCE PRODUCTS AND PRACTICES

### Territory and Plan of Operations

The Exchange is licensed as a multiple-line carrier for property and casualty insurance with the Missouri department of Insurance under Chapter 379 RSMo (Insurance Other Than Life). The Exchange writes multiple peril coverage for fabric care business. The Exchange writes most of its business directly with little reliance on insurance brokers. At December 31, 2004 the Exchange was admitted in the following thirty-five states:

Alabama	Illinois	Massachusetts	New Jersey	South Carolina
Arizona	Indiana	Michigan	New York	Tennessee
Arkansas	Iowa	Minnesota	North Carolina	Texas
Colorado	Kansas	Mississippi	Ohio	Utah
Florida	Kentucky	Missouri	Oklahoma	Virginia
Georgia	Louisiana	Montana	Oregon	Washington
Idaho	Maryland	Nebraska	Pennsylvania	Wisconsin

### Policy Forms, Rates and Underwriting

The Exchange underwrites its business either internally, with authority restricted to the underwriting supervisor, or externally through inspections contracted to Insurance Service Office (ISO) Commercial Risk Services. The Exchange subscribes to the ISO for rates and policy forms. Deviations from standard forms or rates are applied in accordance with individual state filings.

## Advertising

The attorney-in-fact provides advertising on behalf of the Exchange. The Exchange reimburses the attorney-in-fact for incurred advertising expenses up to 2.5% of gross written premium. Advertising is placed under the fictitious name "NIE". "NIE" is registered with the Missouri Secretary of State as being owned by John L. Corley, Inc., the attorney-in-fact. Coverage offered under the "NIE" name includes the Exchange's commercial multi-peril package policy along with complementary coverage placed with other insurance carriers by the attorney-in-fact in its capacity as an agency.

## Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a market conduct report. There has been no market conduct examination of the Exchange since the prior financial examination. The Exchange appears to have procedures in place for the proper handling of complaints. The Exchange has registered no complaints since the prior financial examination.

## REINSURANCE

The Company's reinsurance and premium activity on a direct written, assumed and ceded basis for the period under examination is detailed below:

<u>Premium</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct written premium	\$ 6,405,800	\$ 7,015,457	\$ 7,386,146
Reinsurance assumed	67,284	60,008	75,136
Reinsurance ceded	<u>(915,896)</u>	<u>(1,174,841)</u>	<u>(1,316,601)</u>
Net written premium	<u>\$ 5,557,188</u>	<u>\$ 5,900,624</u>	<u>\$ 6,144,681</u>

### Assumed

On January 1, 2002 the Exchange began participating in the Regional Reciprocal Catastrophe Pool ("the Pool"). This participation involves a retrocession arrangement for secondary layer catastrophe coverage between the Pool and a group of reinsurers known collectively as Mutual Reinsurance Bureau. Pool participants cede to Mutual Reinsurance Bureau which retrocedes to the Pool. Each participant is liable for a pro-rata share of each loss covered by the Pool, with maximum coverage of \$20,000,000. The Exchange assumes 1% of the Pool risk, or a maximum of \$200,000 per occurrence.

### Ceded

#### Multiple Line Excess of Loss Agreement

At year-end 2004, the Exchange participated in a multiple line excess of loss agreement with Platinum Underwriters Reinsurance, Inc. Willis Re, Inc., the Exchange's reinsurance intermediary, placed the coverage. The agreement provides property coverage up to \$2,500,000 in excess of the Exchange's retention of \$250,000. The agreement also provides casualty

coverage up to \$1,000,000 per occurrence with a yearly limit of \$3,000,000. The Exchange's retention on casualty coverage is \$250,000.

#### Catastrophe Agreement

At year-end 2004, the Exchange was party to a catastrophe agreement with Mutual Reinsurance Bureau. Under the agreement, the Exchange retains \$750,000 per loss occurrence and Mutual Reinsurance Bureau provides coverage up to \$1,250,000 per occurrence. Mutual Reinsurance Bureau has an ultimate net liability of \$4,000,000 for the term of the agreement.

#### Umbrella Quota Share Agreement

In addition, the Exchange participated in a quota share agreement with Platinum Underwriters Reinsurance, Inc. Willis Re, Inc., the Exchange's reinsurance intermediary, placed the coverage. Under the agreement, the Exchange cedes 95% of its business classified as umbrella liability coverage to Platinum Underwriters Reinsurance, Inc. The Exchange receives a 30% ceding commission.

#### Equipment Breakdown Coverage

Also the Exchange was party to an equipment breakdown coverage agreement with Hartford Steam Boiler Inspection and Insurance Company. Under this agreement, the Exchange cedes 100% of its equipment breakdown liability coverage. The Exchange receives a 51% ceding commission.

### **ACCOUNTS AND RECORDS**

National Fire and Indemnity Exchange maintains its financial records on a statutory accounting basis. Accounting entries are recorded using Quickbooks accounting software. The Exchange is converting from Delphi Redshaw Elite 7 policy administration software to AMS Services AFW policy management software.

Conner Ash P.C., a public accounting firm, audits the Exchange's financial statements annually. The most recent audit work papers were reviewed. The work papers were used in the course of the examination as deemed appropriate.

Lee M. Bowron, ACAS, MAAA, reviewed and certified the reserves and related actuarial items reported in the financial statements. Mr. Bowron is associated with Casualty Actuaries, Inc.

The Missouri Department of Insurance retained a consulting actuary, Glenn Taylor, ACAS, MAAA, to review the adequacy of the Exchange's reserves and related liabilities. Mr. Taylor is associated with Taylor-Walker and Associates, Inc.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Exchange as of December 31, 2004, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statement or

comments regarding such are made in the “Notes to the Financial Statements,” which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Exchange and noted in the workpapers for each individual financial statement item.

## ASSETS

	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 10,749,903	\$ -	\$ 10,749,903
Common stocks	573,419	-	573,419
Cash and short-term investments	615,693	-	615,693
Receivable for securities	170	-	170
Investment income due and accrued	115,970	-	115,970
Uncollected premiums	1,180,907	-	1,180,907
Amounts recoverable from reinsurers	987,698	-	987,698
FIT recoverable	60,822	-	60,822
Net deferred tax asset	<u>338,287</u>	<u>-</u>	<u>338,287</u>
Total assets	<u>\$ 14,622,869</u>	<u>\$ -</u>	<u>\$ 14,622,869</u>

## LIABILITIES AND SURPLUS

Losses	\$ 2,359,220
Loss adjustment expenses	748,892
Commissions payable	135,466
Other expenses	76,683
Taxes; licenses and fees	47,214
Unearned premiums	3,720,167
Policyholders (dividends declared and unpaid)	383,226
Ceded reinsurance premiums payable	7,324
Refundable subscriber savings accounts	5,114
Escheat funds	<u>32,366</u>
Total liabilities	\$ 7,515,672
Unassigned funds (surplus)	<u>\$ 7,107,196</u>
Total surplus as regards subscribers	<u>\$ 7,107,196</u>
Total Liabilities and Surplus	<u>\$ 14,622,868</u>

## STATEMENT OF INCOME

Premiums earned	\$ 5,995,531
Losses incurred	(2,618,607)
Loss expenses incurred	(827,236)
Other underwriting expenses incurred	(2,549,610)
Total underwriting deductions	<u>(5,995,453)</u>
Net underwriting gain (loss)	\$ 78
Net investment income earned	\$ 489,098
Net realized capital gains (losses)	<u>4,358</u>
Net investment gain (loss)	\$ 493,456
Net gain (loss) from agents' or premium balances charged off	\$ (25,558)
Aggregate write-ins for miscellaneous income	<u>(1,605)</u>
Total other income (loss)	\$ (27,163)
Net income before dividends federal and income tax	\$ 466,371
Dividends to subscribers	(373,083)
Federal income tax incurred	<u>(9,279)</u>
Net income	<u>\$ 84,009</u>

## SURPLUS ACCOUNT

Surplus as regards policyholders; December 31 prior year	\$ 7,181,620
Net income	84,009
Net unrealized capital gains or (losses)	36,803
Change in net deferred income tax	(274)
Refund subscriber savings accounts	(194,963)
Examination changes	-
Change in surplus as regards policyholders for the year	<u>(74,425)</u>
Surplus as regards policyholders; December 31 current year	<u>\$ 7,107,195</u>

## NOTES TO FINANCIAL STATEMENTS

None.

## EXAMINATION CHANGES

None.

## **GENERAL COMMENTS OR RECOMMENDATIONS**

### **Fidelity Bond and Other Insurance**

**Page 8**

The minimum amount of fidelity coverage recommended by the National Association of Insurance Commissioners (NAIC) for an insurer equivalent in size to the Exchange is \$225,000. Corley should increase its fidelity bond coverage to meet the NAIC recommended minimum of \$225,000.

## **SUBSEQUENT EVENTS**

The Exchange's operating results for 2005 were negatively impacted by the Gulf Coast hurricanes that occurred in August and September. As a result, the Exchange did not distribute any earnings in the form of dividends or contributions to subscriber savings accounts for 2005.

In 2005 the Exchange non-renewed all policies in the state of Indiana because of adverse court decisions relating to environmental claims. Since the late 1980s, policies issued by the Exchange have excluded environmental coverage.

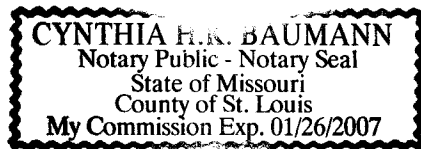
## ACKNOWLEDGMENT


The assistance and cooperation extended by National Fire and Indemnity Exchange during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Joseph Hofmeister, examiner for the Missouri Department of Insurance participated in this examination.

## VERIFICATION

State of Missouri    )  
                              ) ss  
City of St. Louis    )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Exchange, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



  
Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
Missouri Department of Insurance

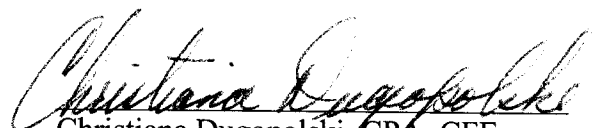
Sworn to and subscribed before me this 13 day of April, 2006.  
My commission expires:

1-26-07

  
Cynthia H. Baumann  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

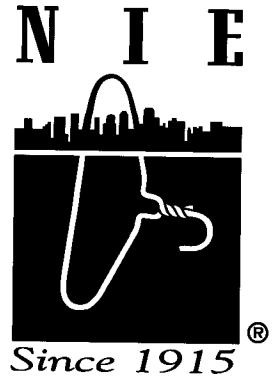
  
Christiana Dugopolski, CPA, CFE  
Audit Manager  
Missouri Department of Insurance



May 27, 2006

Kirk Schmidt, CFE, CPA  
Chief Financial Examiner  
Missouri Department of Insurance  
P.O. Box 690  
Jefferson City, Missouri 65102-0690

RECEIVED  
MO INS DEPT  
MAY 31 2006



RE: December 31, 2004 Examination Report: National Fire and Indemnity Exchange

Dear Mr. Schmidt:

Thank you for your May 22<sup>nd</sup> letter and copy of the Examination Report. That report contains only one item in "General Comments or Recommendations". That one item is as follows:

"The minimum amount of fidelity coverage recommended by the National Association of Insurance Commissioners (NAIC) for an insurer equivalent in size to the Exchange is \$225,000. Corley should increase its fidelity bond coverage to meet the NAIC recommended minimum of \$225,000."

We agree with this recommendation and have increased our fidelity bond coverage to \$225,000 effective May 25, 2006.

We encourage you to include this response in the Examination Report as a public document.

Very truly yours,

Robert Aikin, President  
John L. Corley, Inc.; Attorney-In-Fact  
National Fire & Indemnity Exchange